

86TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } No. 872

PERMITTING WITHHOLDING ON THE COMPENSATION
OF FEDERAL EMPLOYEES FOR PURPOSES OF INCOME
TAXES IMPOSED BY CERTAIN CITIES

AUGUST 11, 1959.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the
following

R E P O R T

[To accompany H.R. 3151]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3151) relating to withholding, for purposes of the income tax imposed by certain cities, on the compensation of Federal employees, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. GENERAL STATEMENT

Present law (66 Stat. 765), in general, provides that where State or Territorial laws require the collection of a tax by withholding by employers, the Federal Government upon request is to enter into an agreement to withhold the State or Territorial tax from compensation paid Federal employees who are employed in the State or Territory. H.R. 3151 amends this statute to also provide for withholding of city taxes by the Federal Government, with respect to its employees who are employed in a city with such a tax, if the city has a population (according to the most recent decennial census) of 75,000 or more.

This bill, which the Treasury Department has indicated it favors, has been approved unanimously by your committee.

II. REASONS FOR BILL

In 1952, in the report on the bill (H.R. 5157, 82d Cong., 2d sess.) which provided for withholding by the Federal Government of State or Territorial taxes collected through withholding, your committee pointed out that at that time Federal agencies lacked the authority to

withhold State and Territorial income taxes from the salaries of Federal employees. In that report it was urged that provision be made for withholding of State and Territorial income taxes with respect to Federal employees in view of the cooperation of the State and Territorial governments with the Federal Government with respect to fiscal matters generally, and particularly in view of the fact the States and Territories were withholding Federal income taxes from their employees. Your committee believes that the same reasons should also require the Federal Government to withhold city income taxes from Federal employees. The cities also have cooperated with the Federal Government with respect to fiscal matters generally and also withhold Federal income taxes from compensation paid their employees.

The bill provides for withholding by the Federal Government only in the case of incorporated cities with populations of 75,000 or more in order to limit the administrative burden being assumed by the Federal Government. Where taxes are imposed by smaller municipalities the number of Federal employees involved is likely to be few in number with the result that the Federal Government, if it were to withhold in such cases, would be required to set up withholding procedures for taxes involving relatively few Federal employees.

Your committee has been informed that municipal taxes which provide for withholding on compensation presently are in effect in five States: Alabama, Kentucky, Missouri, Ohio, and Pennsylvania. In these States there are 15 cities with populations of 75,000 or more which levy municipal income taxes which are withheld by employers. The income tax rates imposed by these cities are flat-rate taxes varying from one-half of 1 percent to 1½ percent. The 15 cities involved are:

Pennsylvania:

Allentown
Altoona
Erie
Philadelphia
Pittsburgh
Scranton

Missouri: St. Louis

Kentucky: Louisville

Ohio:

Canton
Cincinnati
Columbus
Dayton
Springfield
Toledo
Youngstown

It is important to note that there are a number of restrictions in existing law, now applicable to State withholding taxes which will also apply to the city withholding taxes. These are designed both to limit the administrative burdens of the withholding by the Federal Government and to prevent hardship and discrimination in the case of the Federal employees involved. These restrictions can be summarized as follows:

(1) The law is limited so that withholding by the Federal Government will not be required with respect to taxes of a city which requires withholding only with respect to nonresidents.

(2) Withholding will be required only with respect to Federal employees whose regular place of Federal employment is within the boundaries of the city imposing the withholding tax.

(3) No withholding of city tax will be required with respect to compensation for service as a member of the Armed Forces (since such

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service frequently is temporary in nature and may be of a transient character).

(4) The Federal Government specifically does not consent to the application of any provision of a city's law which has the effect of imposing more burdensome requirements upon the United States than it imposes upon other employers or which has the effect of subjecting the United States or any of its officers or employees to any penalty or liability as a result of this law.

It also should be noted that this bill merely provides for a method of collecting taxes already imposed by the device of withholding of municipal income taxes by the Federal Government on its employees. Issues, such as the jurisdiction of a city to tax any employee or group of employees, would still be matters to be settled by the appropriate courts, unaffected by the fact that the Federal Government has withheld tax.

III. CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

FIRST SECTION OF ACT OF JULY 17, 1952

(5 U.S.C., sec. 84b)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That where—

(1) the law of any [State or Territory] *State, Territory, or city* provides for the collection of a tax by imposing upon employers generally the duty of withholding sums from the compensation of employees and making returns of such sums to the authorities of such [State or Territory] *State, Territory, or city*, and

(2) such duty to withhold is imposed generally with respect to the compensation of employees who are residents of such [State or Territory] *State, Territory, or city*,

then the Secretary of the Treasury, pursuant to regulations promulgated by the President, is authorized and directed to enter into an agreement with such [State or Territory] *State, Territory, or city* within one hundred and twenty days of the request for agreement from the proper official of such [State or Territory] *State, Territory, or city*. Such agreement shall provide that the head of each department or agency of the United States shall comply with the requirements of such law in the case of employees of such agency or department who are subject to such tax and whose regular place of Federal employment is within the [State or Territory] *State, Territory, or city* with which such agreement is entered into. No such agreement shall apply with respect to compensation for service as a member of the Armed Forces of the United States. *For the purposes of this section, the term "city" means only a city which is incorporated under the law of a State or Territory and which had a population (according to the last decennial census) of seventy-five thousand or more individuals.*